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# Financial statements of Canadian Warplane Heritage

September 30, 2017

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## Independent Auditor's Report

To the Members of  
Canadian Warplane Heritage

We have audited the accompanying financial statements of Canadian Warplane Heritage which comprise the balance sheet as at September 30, 2017, and the statements of operating revenues and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### Basis for Qualified Opinion

In common with many charitable organizations, Canadian Warplane Heritage derives revenue from donations and fundraising and special events, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of Canadian Warplane Heritage and we were not able to determine whether any adjustments might be necessary to donations and fundraising and special events revenue, shortfall of operating revenues over expenses, net assets and assets.

**Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Canadian Warplane Heritage as at September 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants  
Licensed Public Accountants  
December 9, 2017

## Canadian Warplane Heritage

### Statement of operating revenues and expenses

Year ended September 30, 2017

	2017	2016
	\$	\$
<b>Revenue</b>		
Fundraising and special events	482,484	369,091
Food, beverage and catering	773,867	601,845
Volunteer donations	544,680	555,721
Retail	934,827	986,471
Support clubs	737,686	600,402
Admissions	467,512	420,911
Education	278,478	237,034
Memberships	278,904	292,558
Donations	520,314	609,828
Flying activities	43,104	64,514
Government grants	7,500	7,500
Other	139,491	167,899
Facility and plane rental	291,982	323,978
	<b>5,500,829</b>	<b>5,237,752</b>
<b>Expenses</b>		
Salaries and benefits	1,932,225	1,726,988
Volunteer expenses	510,348	490,760
Retail	467,095	589,837
Fundraising and special events	212,135	55,323
Aircraft maintenance	706,853	444,790
Administrative	483,577	382,677
Food, beverage and catering	324,031	265,983
Fuel and oil	226,491	195,465
Utilities and taxes	185,112	189,932
Marketing	156,035	168,796
Insurance	63,953	65,644
Building maintenance	112,742	93,401
Legal and audit fees	25,200	25,200
Membership	43,097	40,406
Interest	6,916	2,421
Education	15,859	25,062
Curatorial	8,754	12,040
	<b>5,480,423</b>	<b>4,774,725</b>
Excess of operating revenues over expenses before the undernoted	20,406	463,027
Amortization	(99,525)	(112,636)
<b>Net (shortfall) excess of operating revenues over expenses</b>	<b>(79,119)</b>	<b>350,391</b>

The accompanying notes are an integral part of the financial statements.

**Canadian Warplane Heritage****Statement of changes in net assets**

Year ended September 30, 2017

				2017	2016
	Operating	Invested in capital assets	Restricted endowment	Total	Total
	\$	\$	\$	\$	\$
<b>Balance, September 30, 2016</b>	<b>(102,008)</b>	<b>9,220,974</b>	<b>232,419</b>	<b>9,351,385</b>	9,000,994
Net (shortfall) excess of revenues over expenses	(85,614)	—	6,495	(79,119)	350,391
Amortization	99,525	(99,525)	—	—	—
Purchase of capital assets	(456,951)	456,951	—	—	—
<b>Balance, September 30, 2017</b>	<b>(545,048)</b>	<b>9,578,400</b>	<b>238,914</b>	<b>9,272,266</b>	<b>9,351,385</b>

The accompanying notes are an integral part of the financial statements.

# Canadian Warplane Heritage

## Balance sheet

As at September 30, 2017

	Notes	2017	2016
		\$	\$
<b>Assets</b>			
Current assets			
Cash		471,338	503,691
Accounts receivable		100,299	66,787
Inventory		214,613	176,213
Prepaid expenses		39,551	59,408
Government remittances receivable		21,227	—
Short-term investments		7,875	—
		<b>854,903</b>	<b>806,099</b>
Long-term			
Endowment fund		203,753	203,753
Investments	3	35,161	28,666
		<b>238,914</b>	<b>232,419</b>
Capital assets			
Museum building	4	12,240,691	12,008,981
Collection		6,889,374	6,834,378
Land		664,584	600,872
Equipment and furniture		617,549	513,019
Computer equipment	4	241,132	216,271
Grants	4	(9,010,190)	(9,010,190)
		<b>11,643,140</b>	<b>11,163,331</b>
Accumulated amortization		(2,064,740)	(1,942,357)
		<b>9,578,400</b>	<b>9,220,974</b>
		<b>10,672,217</b>	<b>10,259,492</b>
<b>Liabilities</b>			
Current liabilities			
Bank loan	6	290,326	24,818
Accounts payable and accrued liabilities		905,872	641,989
Government remittances payable		—	47
Current portion of long-term debt		—	37,500
		<b>1,196,198</b>	<b>704,354</b>
Endowment fund		203,753	203,753
		<b>1,399,951</b>	<b>908,107</b>
Commitments	7		
<b>Net assets</b>			
Operating		(545,048)	(102,008)
Invested in capital assets		9,578,400	9,220,974
Restricted endowment		238,914	232,419
		<b>9,272,266</b>	<b>9,351,385</b>
		<b>10,672,217</b>	<b>10,259,492</b>

The accompanying notes are an integral part of the financial statements.

Approved by the Board

\_\_\_\_\_, Director

\_\_\_\_\_, Director

## Canadian Warplane Heritage

### Statement of cash flows

Year ended September 30, 2017

	2017	2016
	\$	\$
<b>Operating activities</b>		
Net (shortfall) excess of operating revenues over expenses	<b>(79,119)</b>	350,391
Items not affecting cash		
Amortization	<b>99,525</b>	112,636
Donations in kind - short-term investments	<b>(7,875)</b>	—
Donations in kind - capital assets	—	(243,200)
Unrealized gain on investments	<b>(1,495)</b>	(1,166)
Non-cash donation	<b>(5,000)</b>	(2,500)
Changes in non-cash working capital components		
Accounts receivable	<b>(33,512)</b>	(59,005)
Inventory	<b>(38,400)</b>	60,816
Prepaid expenses	<b>19,857</b>	(31,646)
Accounts payable and accrued liabilities	<b>263,883</b>	159,943
Government remittances	<b>(21,274)</b>	(57,919)
	<b>196,590</b>	288,350
<b>Investing activities</b>		
Purchase of capital assets	<b>(456,951)</b>	(66,060)
Purchase of investments	—	(25,000)
	<b>(456,951)</b>	(91,060)
<b>Financing activities</b>		
Proceeds from bank loan	<b>290,326</b>	—
Repayment of long-term debt	<b>(37,500)</b>	(37,500)
Repayments on bank loan	<b>(24,818)</b>	(49,635)
	<b>228,008</b>	(87,135)
Net change in cash	<b>(32,353)</b>	110,155
Cash, beginning of year	<b>503,691</b>	393,536
<b>Cash, end of year</b>	<b>471,338</b>	503,691

The accompanying notes are an integral part of the financial statements.



**Canadian Warplane Heritage**  
**Notes to the financial statements**  
September 30, 2017

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**1. Description of the organization**

The Canadian Warplane Heritage (the "Organization") is a registered non-profit corporation, having been incorporated in December 1971 under the laws of Ontario. The museum's purpose can be stated as follows:

- To acquire, document, preserve and maintain a complete collection of aircraft that were flown by Canadians and the Canadian military services from the beginning of World War II to present, including other related aviation artifacts and memorabilia of significant historic importance to this period.
- To provide facilities for the restoration and protection, interpretation and exhibits of the collection. These will be displayed in their natural element - aerial or static, with emphasis on all aspects of safety and legal obligations in relation to both the artifacts and public and to deliver programs that meet the standards for community museums in Ontario.
- To instruct, educate and entertain the general public through the maintenance and rotation of displays; flight demonstrations; special events and activities and to encourage Canadians of all ages to become actively involved in the preservation of these aircraft and artifacts.
- To maintain supportive exhibits in tribute to the thousands of men and women who built, serviced and flew these aircraft and in memory of those who did not return.

**2. Accounting policies**

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following significant accounting policies:

*Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value when the Organization becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost except for the following:

- a) Investments in listed shares and derivative financial instruments that are not designated in a qualifying hedging relationship, which are measured at fair value at the balance sheet date.

Interest earned on short-term investments and realized gains and losses on sale of short-term investments are included in operating revenues and expenses in the statements of operating revenues and expenses.

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in excess of income over expenses as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Organization recognizes in net earnings an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to excess of income over expenses in the period the reversal occurs.

**Canadian Warplane Heritage**  
**Notes to the financial statements**  
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**2. Accounting policies (continued)**

*Foreign currency translation*

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year except for amortization, which is translated at historical rates. Translation gains or losses are included in shortfall of operating revenues over expenses.

*Fund accounting*

Endowment gifts are reported in the Endowment Funds. Investment income earned on resources of the Endowment Funds is reported in the appropriate Fund depending on the nature of any restrictions imposed by contributors of funds for endowment.

*Revenue recognition*

The Organization follows the deferral method for accounting for contributions. Revenues from cash donations and memberships are recognized when the funds are received. Revenues from government grants and air show performances are recognized when services are rendered or in accordance with contractual agreements. Other forms of revenue are recognized as earned.

*Gifts in kind*

Gifts in kind for larger capital assets only are recognized as additions to capital assets in the year in which they are received. Gifts in kind are estimated at fair market value.

*Donated services*

The Organization's activities include time donated by a substantial number of volunteers. Since no objective basis exists for recording and assigning values to these services, they are not reflected in the financial statements.

*Capital assets*

Capital assets are recorded at cost. Cost is defined as laid-down cost or receipted donation value plus the costs of restoration. Amortization is recorded on a straight-line basis as follows:

Museum building, net of grants	50 years
Equipment and furniture	10% per annum
Automotive equipment	20% per annum
Computer equipment, net of grants	20% per annum

The collection is not amortized.

The collection consists of aircraft, parts and display assets and the museum building. Equity in the collection consists of these assets recorded at cost or donated value, less any corresponding long-term debt.

Based on the most recent appraisal done in fiscal 2001, the fair market value of the aircraft is approximately \$14,240,000.

**Canadian Warplane Heritage**  
**Notes to the financial statements**  
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**2. Accounting policies (continued)**

*Inventory*

Inventory is valued at the lower of cost (on the first-in, first-out method) and net realizable value. Inventories recognized as expense during the year amounted to \$667,922 (\$542,387 in 2016).

*Use of estimates*

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Key components of the financial statements requiring management to make estimates include the realizable value of inventories, the useful lives of capital assets, and the fair value of certain financial instruments. Actual results could differ from these estimates.

**3. Investments**

Investments include funds pooled with Hamilton Community Foundation and are made in accordance with the Organization's investment policy as developed by the Board of Directors. The goal of the policy is to ensure that funds grow while earning returns consistent with prudent investments.

**4. Grants**

*Museum building*

In 1994, the Organization entered into a contract with the Regional Municipality of Hamilton-Wentworth under the Canada/Ontario Infrastructure Works Program to assist in financing the new museum. The cost of the project was funded as follows:

- \$4 million from the Government of Canada;
- \$4 million from the Government of Ontario;
- \$1 million from the Region of Hamilton-Wentworth; and
- \$3 million provided by Canadian Warplane Heritage from insurance proceeds, fund raising and sale of hangars.

The new museum was completed in the spring of 1996.

In 2017, the Organization entered into a contract with Canadian Heritage for \$45,660 to assist in financing building upgrades. The government grant is deducted from the related building upgrades with any amortization calculated on the net amount. The building upgrades net of the reduction for the government assistance is amortized at 2% using the straight-line basis.

*Computer equipment*

In 2014, the Organization entered into a contract with the Ontario Trillium Foundation for \$114,300 to assist in financing of a new computer system, software, and Wi-Fi equipment. The government grant is deducted from the related computer equipment with any amortization calculated on the net amount. The computer equipment net of the reduction for the government assistance is amortized at 20% using the straight-line basis.

**Canadian Warplane Heritage**  
**Notes to the financial statements**  
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**5. Bank indebtedness**

The Organization holds a credit facility with the bank with a maximum loan limit of \$500,000 (\$500,000 in 2016), bearing interest at prime rate plus 1.00%, payable on demand, and is collateralized by a general security agreement and a general assignment of book debts. The unused portion of this credit facility at year-end was \$500,000 (\$500,000 in 2016).

**6. Bank loan**

The bank loan accumulates interest monthly in arrears at a rate of prime plus 1.50% (2.00% in 2016) and is due on demand. The loan is amortized over 120 months. The loan is collateralized by a general security agreement and a general assignment of book debts. The Organization is making principal repayments of \$3,643 (\$4,136 in 2016) on a monthly basis.

**7. Commitments**

The Organization is committed under terms of operating leases for the following minimum lease payments over the next year:

	\$
2018	4,499
2019	4,499
2020	4,499
2021	1,600
	15,097

**8. Insurance**

The Organization carries ordinary comprehensive liability insurance; however, it does not carry full insurance on its aircraft.

**9. Financial instruments**

*Currency risk*

The Organization holds a US and UK bank account and thus is exposed to foreign exchange fluctuations. The Organization does not use derivative instruments to reduce its exposure to currency risk.

*Interest rate risk*

Interest rate risk is the risk to the Organization's earnings that arises from fluctuations in interest rates, and the degree of volatility of these rates. The Organization does not use derivative instruments to reduce its exposure to interest rate risk.

**Canadian Warplane Heritage**  
**Notes to the financial statements**  
September 30, 2017

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**9. Financial instruments (continued)**

*Liquidity risk*

The Organization's objective is to have sufficient liquidity to meet its liabilities when due. The Organization monitors its cash balances and cash flows generated from operations to meet its requirements. As at September 30, 2017 the most significant financial liabilities are accounts payable and accrued liabilities, and bank loan.